

ICMA Seminar: Developments in international and MENA fixed income and repo markets

Martin Scheck, Dubai, 16 April 2018



Table of Contents

1. ICMA - Activities and Priorities	3
2. MiFID II/MiFIR - first reflections on implementation	12
3. Green and Social Bonds - update	18
4. The transition from IBORs to near risk free rates	26
Appendix	31

Section 1

ICMA – Activities and Priorities

Overview of the International Capital Market Association

- Unique and influential voice for the global capital market – focus on debt securities
- ICMA's market conventions and standards have been the pillars of the international debt market for 50 years
- More than 530 members based in over 60 countries
- Members: issuers, intermediaries, investors, market infrastructure providers
- MoUs and affiliations globally: e.g. Bahrain IIFM, China NAFMII, India ANMI, Japan JSDA, Oman CMA, UAE SCA, EMTA, etc.
- Regulatory interaction with both national and international authorities

ICMA Activities

- Setting standards in international debt securities markets and helping the markets operate more efficiently
- Market and regulatory policy work (running relevant member committees and councils, setting standards, standard documentation, research and position papers, publications including Quarterly Report, helping members by clarifying and implementing regulation, advocacy on behalf of members)
- Legal & Regulatory Helpdesk
- Access to ICMA experts
- ICMA Executive Education programmes
- ICMA Events
- ICMA's Members' Register
- Outreach forums: ICMA's Woman Network and ICMA's Future Leaders
- Mentoring platform

ICMA Core Areas

■ 4 Pillars

- Primary markets
- Secondary markets
- Short term markets (CP, repo and collateral)
- Green, social and sustainable bonds

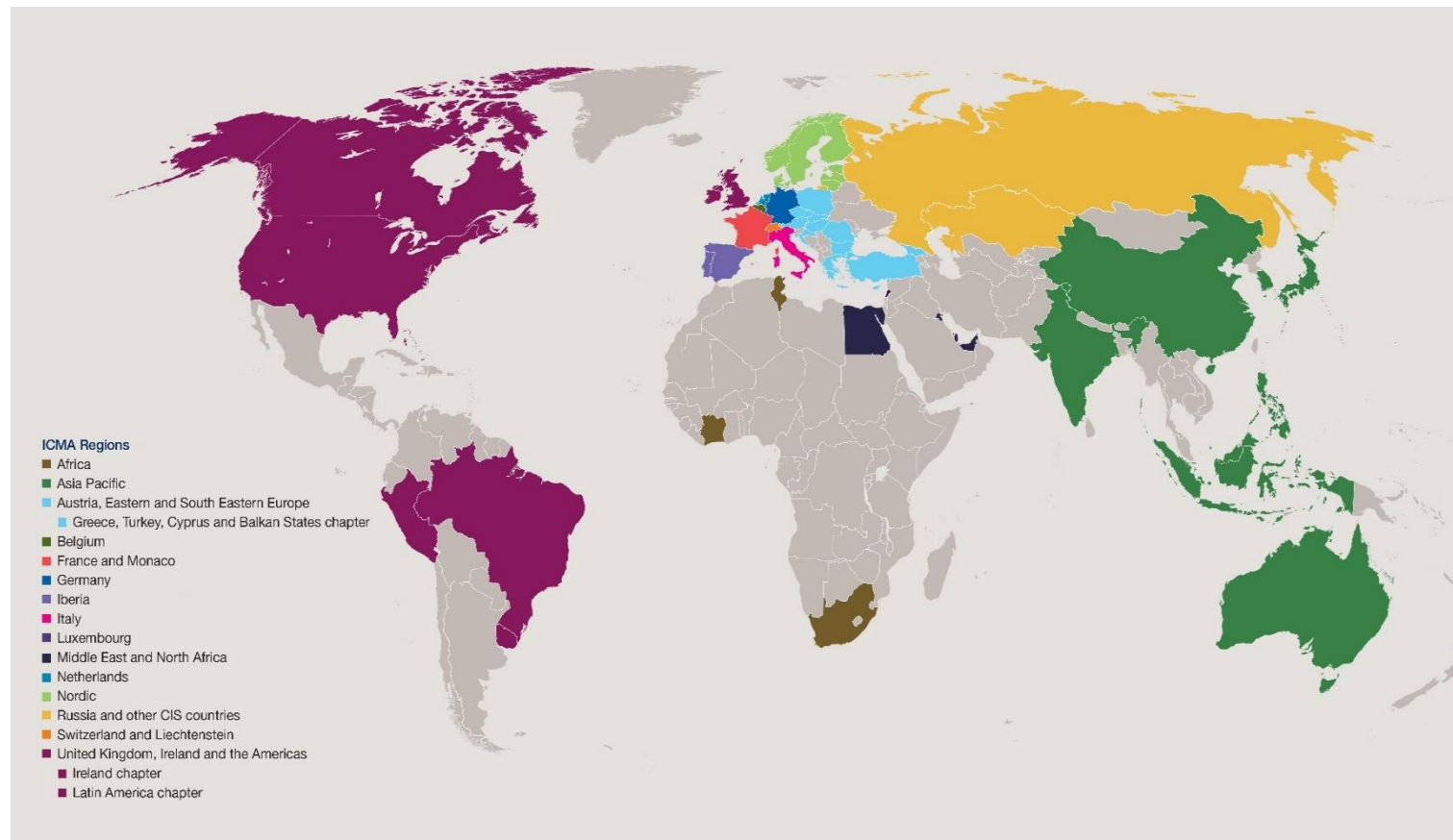
■ 2 cross cutting themes

- Technological change
- Global coherence and the avoidance of fragmentation

ICMA Standard Documentation

- ICMA's market conventions and standards have been the pillars of the international debt market for 50 years
- **Guidelines and recommendations for the Primary Market**
 - ICMA Primary Market Handbook
- **Rules and recommendations for the Secondary Market**
 - ICMA Rulebook
- **Standard agreement and best practices for the Repo Market**
 - **Global Master Repurchase Agreement (GMRA)**
 - **GMRA Legal opinions on its validity in 66 jurisdictions** – which represent significant savings on legal costs for ICMA members
 - ICMA ERCC Guide to Best Practice in the European Repo Market
- **Green Bond Principles (GBP) and Social Bond Principles (SBP)**

ICMA Membership – more than 530 members in over 60 countries



ICMA Regions and Regional Committees

- Africa
- Asia Pacific
- Austria, Eastern and South Eastern Europe
 - Greece, Turkey, Cyprus and Balkan States Chapter
- Belgium
- France and Monaco
- Germany
- Iberia
- Italy
- Each ICMA regional chair is a member of the ICMA Committee of Regional Representatives
- Luxembourg
- **Middle East and North Africa**
- Netherlands
- Nordic
- Russia and other CIS countries
- Switzerland and Liechtenstein
- United Kingdom, Ireland and the Americas
 - The Latin American Chapter
 - The Ireland Chapter

ICMA Membership in MENA Region

- Ahli United Bank, Bahrain
- Arab African International Bank, Egypt
- Arab Banking Corporation, Bahrain
- Arqaam Capital, UAE
- Bank Audi, Lebanon
- Boursa Kuwait Securities Company, Kuwait
- Burgan Bank, Kuwait
- Doha Bank, Qatar
- Emirates NBD, UAE
- First Abu Dhabi Bank, UAE
- Gulf International Bank, Bahrain
- Kuwait Clearing Company, Kuwait
- Kuwait Projects Company (KIPCO), Kuwait
- National Bank of Fujairah, UAE
- Union National Bank, UAE

ICMA Activities in MENA

- Regional committee drives agenda
- Participation in conferences and events
- Workshops and seminars
- Education/market development
- Provision of publications, reports.
- Conference calls to update on developments
- Provision of ICMA members services in the region

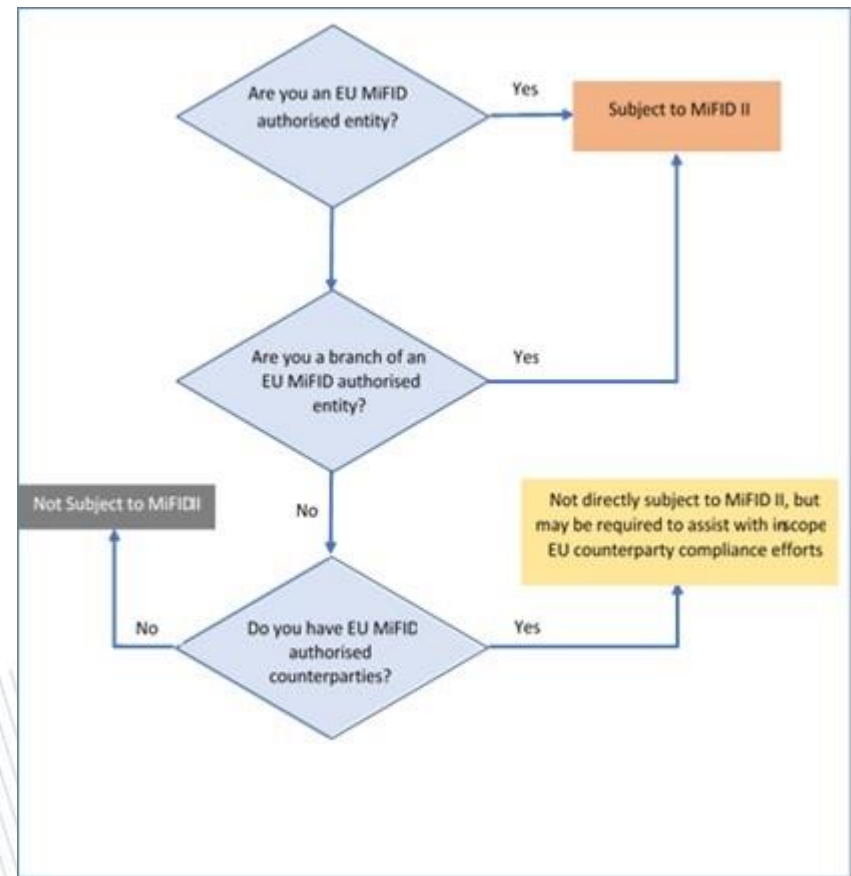
Section 2

MiFID II/MiFIR - First reflections on implementation

MiFID II/R - Overview

- MiFID II and MiFIR apply from 3 January 2018
- **Objectives:** Increase market transparency, efficiency and safety
- **Scope:** EU investment firms and activities undertaken in the EU
- Extraterritorial aspects

■ Are you in scope?



MiFID II/R – Selected key issues and extraterritorial aspects (ii)

- **Trade reporting (to market):** Pre- and post-trade reporting requirements for bonds, structured finance products, emission allowances and derivatives.
- Quotes and details of executed transactions to be made publicly available in near real-time, subject to pre-trade waivers and post-trade deferrals.
 - This applies to non-EU firms transacting OTC outside the EU with (i) a non-EU branch of an EU investment firm, but (ii) not with a non-EU subsidiary of an EU investment firm.
 - Transactions executed by EU investment firms on third-country trading venues should not be required to be made post-trade transparent, pending ESMA's assessments of third-country trading venues (see ESMA's revised opinion issued on 15 December 2017). The assessments are expected to be published in the course of 2018.

MiFID II/R – Selected key issues and extraterritorial aspects (iii)

- **Transaction reporting (to regulators):** Executed transaction details (including Legal Entity Identifiers (LEIs)) have to be reported to national competent authorities (NCAs) (T+1).
 - For non-EU investment firms (including subsidiaries) that transact with an EU MiFID authorised counterparty, or on an EU venue, the transaction reporting obligation is the responsibility of the EU counterparty or trading venue.
 - LEIs: for a temporary period of six months, ESMA authorised:
 - i. Trading venues to report their own LEI codes instead of LEI codes of the non-EU issuers while reaching out to the non-EU issuers; and
 - ii. Investment firms to report transactions without having previously obtained an LEI code from legal persons provided the investment firm has obtained the necessary documentation from the respective client to apply for an LEI code on his behalf and has done so immediately.

MiFID II/R – Selected key issues and extraterritorial aspects (ii)

- **Best Execution:** “all sufficient steps” to ensure best execution for clients and disclose firms best execution policy.
- EU best execution requirements (including the related reporting obligations) do not apply to non-EU firms, nor to the non-EU branches of EU firms.
- **Research:** MiFID II requires unbundling. Portfolio managers and investment advisers must pay for research separately.
 - EU firms must also pay for research provided by non-EU firms.
- **Securities financing transactions (SFTs):** Pre- and post-trade transparency, most transaction reporting and some of the critical best execution requirements do not apply to securities financing transactions (SFTs).

MiFID II/R – Implementation update

In Q1 2018, ICMA has held MiFID II workshops to review implementation of MiFID II/R

- No market dislocation
- Availability of LEIs still incomplete especially outside EU
- Patchy data availability
- No consolidated tape provider, or “golden source”, of trading activity at EU level
- No specific Systematic Internaliser database
- Diverging interpretations of:
 - i. Liquidity assessments of bonds
 - ii. Definition of research
- Fewer bond issues for retail, increasing trend for institutional distribution only

Section 3

Green and Social Bonds - update



Green, Social and Sustainability Bonds

- A market has arisen for bond investors looking for opportunities that incorporate environmental, social and sustainability considerations. **Green, Social and Sustainability Bonds** have evolved out of this demand.
- Green, Social and Sustainability Bonds are **any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and social projects.**
- ICMA’s **Green Bond Principles (GBP)** and **Social Bond Principles (SBP)**, as well as the **Sustainability Bond Guidelines (SBG)**, referred to as the “**Principles**” have become the leading framework globally for issuance of green, social and sustainability bonds.
- Green, Social and Sustainability Bonds are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities.

Bond Type	Use of Proceeds
Green Bond	Finance projects with a clear environmental benefits (e.g. renewable energy, energy efficiency, climate change adaptation)
Social Bond	Finance projects that address social issues and/or seek to achieve positive social outcomes especially for a target population (e.g. poor, vulnerable, unemployed, uneducated etc.)
Sustainability Bond	Finance a mix of green and social projects

Green, Social and Sustainability Bonds

The common feature of green bonds, social bonds and sustainability bonds is their predetermined use of proceeds and voluntary alignment with four core components of the GBP and SBP.*

The GBP and SBP are based on four pillars:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

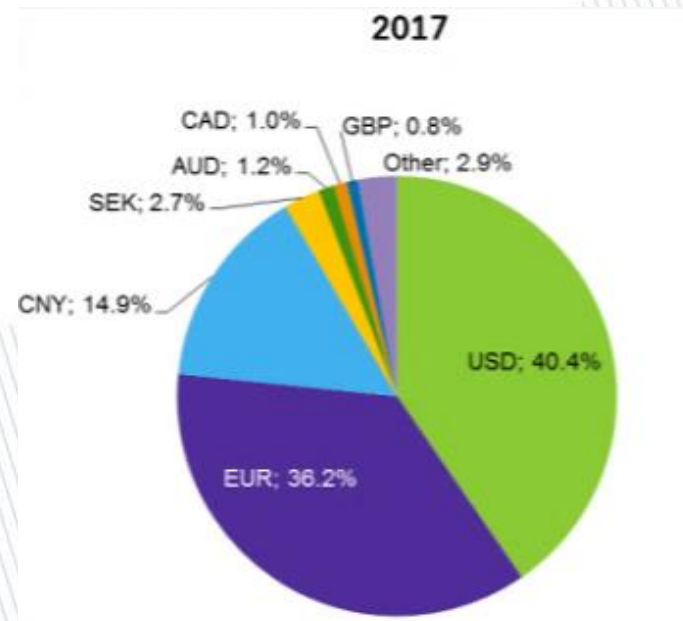
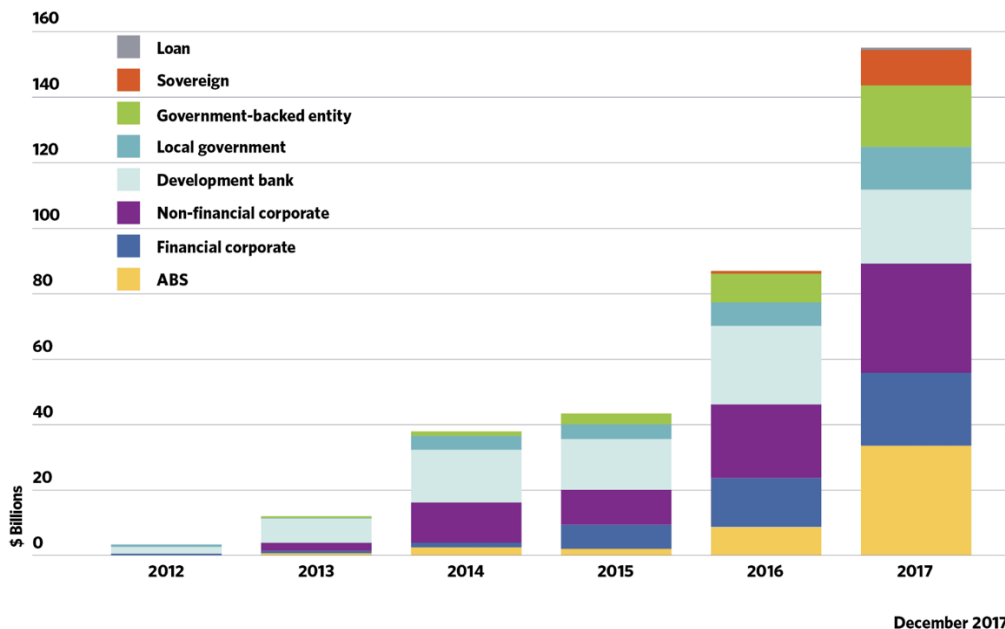
And External Review recommendations

Under the **Governance**, it is the Executive Committee that decides on updates of the GBP and the SBP with the input of members and observers through annual consultations that are organised by the Secretariat.

86% of the Green bonds issued in 2017 were aligned with the ICMA GBP and CBI's standards

Green, Social and Sustainability Bonds

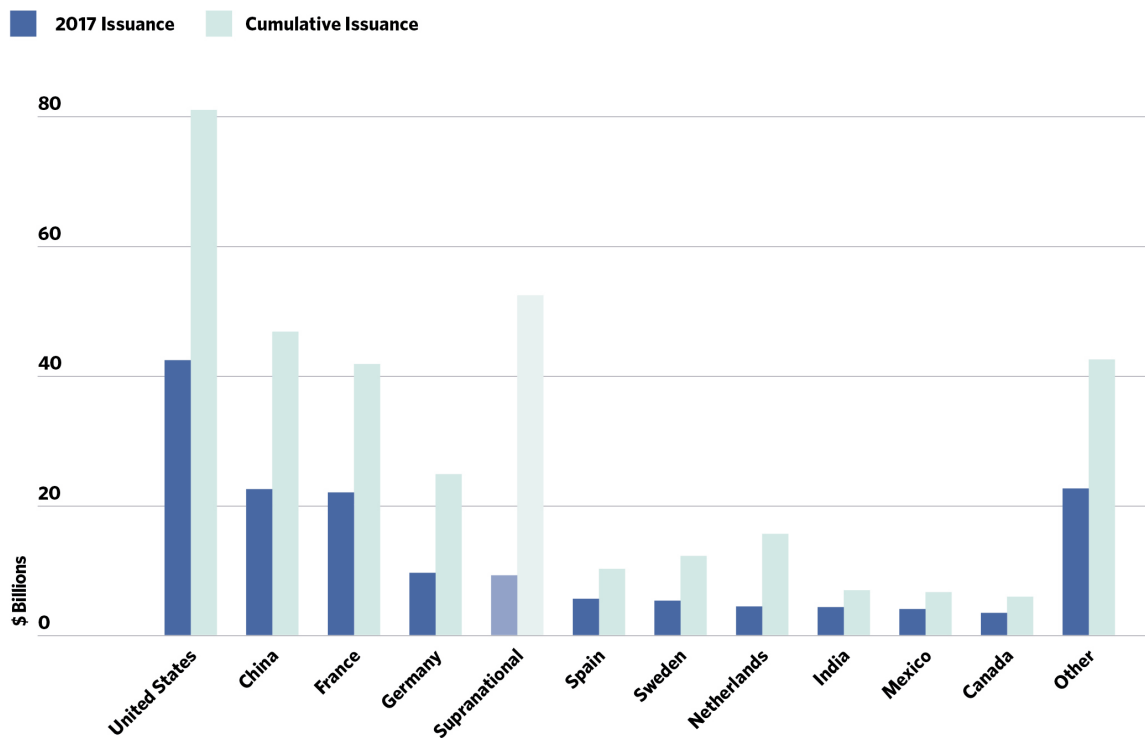
- **First issue by EIB in 2007**
 - **US\$155.5bn** total issuance 2017
 - **Over 1500** green bond issues
 - **78%** growth on 2016
 - **37** countries from all continents
 - **239** issuers
 - **146** new issuers
- **US\$10.7bn** – largest bond
 - sovereign Green Bonds from France, Fiji, Nigeria
 - **3 regions account for over half (56%) of issuance:** United States (US\$ 37.8 bn), China (US\$ 30.7 bn), France (US\$ 19.4 bn)
 - In 2017, the **market shifted towards Euros**, driven by a very active corporate EUR market. The French Green Sovereign OAT helped to push the EUR trend as well



Source: CBI/ SEB

Green Bonds – Geographic Diversity

- The **US, China** and **France** led the way accounting for **56%** of global issuance.
- **Germany, Spain, Sweden, Netherlands, Mexico and Canada** filled out the remaining **top ten positions**.
- **India** is 8th largest market (down from 5th)
- Largest overall issuer was **Fannie Mae** with **USD24.9bn** from **green MBS** programme.





Sovereign Green Bonds - Issuance

- **Seven sovereign green bonds have been issued to date** - including from France the largest issuance so far in the green bond market, the longest maturity date and the largest inaugural issuance in the market's history.
- Issuance has been from both developed markets (with Belgium most recently), as well as emerging markets with important symbolic issues from **Fiji and Nigeria**.
- In 2018 **Poland** issued a second green bond and **Indonesia** issued a **green sukuk bond**
- Other Sovereigns expected to issue in the near term include **Sweden** and **Hong Kong** has announced a green bond issuance programme of up to HK\$100 billion

Green Bonds - MENA

- \$587 million green bond issue from NBAD in March 2017
- Immediate initiatives for green bonds:
 - Qatar Central Bank (QCB) seeks to facilitate the issuance of green bonds
 - Fransabank in Lebanon has established a \$150m Green MTN Programme
- Potential for green sukuk demonstrated by recent sovereign issue from Indonesia
- Array of sustainable finance initiatives across the region, generating assets which add significantly to green bond financing for example:
 - Saudi Arabia with SoftBank of Japan creating the world's largest solar power generation project aiming to spend \$200bn by 2030 requiring financing

EU Commission Action Plan on Financing a Sustainable European Economy Priority Recommendations

Following the [final report](#) of the EU HLEG on sustainable finance, the European Commission has identified **10 priorities** in its subsequent [Action Plan](#):

1. Establishing an EU classification system for sustainable activities
2. Creating Standards and labels for green financial products
3. Fostering investment in sustainable projects
4. Incorporating sustainability when providing financial advice
5. Developing sustainability benchmarks
6. Better integrating sustainability in ratings and market research
7. Clarifying institutional investors' and asset managers' duties
8. Incorporating sustainability in prudential requirements
9. Strengthening sustainability disclosure and accounting rule-making
10. Fostering sustainable corporate governance and attenuating short-termism in capital markets



Section 4

The transition from IBORs to near risk free rates

Background to reform

- Widespread issues with illegal manipulation have prompted reform of existing benchmarks
 - IOSCO principle of good practice
 - Enhanced governance, including new benchmark administrators
 - More robust calculation methodologies
 - Focus on observed transactions rather than bank estimates
 - Curtailment of maturity spectrum
 - Identification of robust fallback provisions
- Recent reviews by authorities revealed continuing over-reliance on estimates rather than underlying transactions, leading to
 - New near risk-free reference rates currently being designed in the 5 major currency blocks
 - Cross industry working groups formed to assess benchmarks, analyse alternatives and design transition mechanics

ICMA involvement

Analysis

- Benchmark Transition Roadmap and global benchmark survey with ISDA, AFME, SIFMA

Technical committees

- Chair of the Sub-Group on Bond Markets of the Sterling Risk-Free Rate Working Group at the invitation of Bank of England and the FCA
- Member of the Euro RFR Working Group, organised by the ECB, the European Commission, ESMA and FSMA
- Member of the National Working Group on Swiss Franc Reference Rates (NWG)

Awareness

- Panel with officials from different IBOR jurisdictions, at the ICMA conference in Madrid at the end of May
- Article 'The transition from LIBOR' published in the ICMA Quarterly Report, First Quarter 2018

Near risk-free reference rates - status

Currency	Near Risk-Free Reference Rate	Secured or Unsecured	Available?	Administrator
USD	SOFR	Secured	Yes	FRBNY
GBP	Reformed SONIA	Unsecured	(April) 2018	BoE
CHF	SARON	Secured	Yes	SIX
Euro	Not yet defined	Not yet defined	No	Not yet defined
JPY	TONAR	Unsecured	Yes	BoJ

Open questions

- Creating a term structure for overnight rates
- Requirements for credit adjustments
- Transition mechanics in cash and derivatives markets
- Legacy issues and fall backs
- Future-proofing documentation
- Continued existence of LIBOR
- Contract continuity

Appendix

ICMA Councils and Committees

- Regulatory Policy Committee
- Primary Market Practices Committee
 - Legal & Documentation Committee
 - Asia Bond Syndicate Forum
 - Asia Legal & Documentation Forum
- Public Sector Issuer Forum
- Financial Institution Issuer Forum
- Corporate Issuer Forum
- Green Bond and Social Bond Principles
- The European Corporate Private Placement Working Group
- Euro Commercial Paper Committee
- Secondary Market Practices Committee
 - MiFID II Working Group
 - Electronic Trading Working Groups
- European Repo & Collateral Council and Committee
- Asset Management and Investors Council
- Covered Bond Investor Council

ICMA Legal & Regulatory Helpdesk

- ICMA's Legal & Regulatory Helpdesk is one of the main services that we offer to our members. It provides **informal guidance** in the following areas:
 - ICMA Primary Market Handbook
 - ICMA Rulebook (Rules and recommendations for the Secondary Market)
 - GMRA and associated 66 legal opinions for the repo market
 - ICMA dispute resolution procedures: conciliation and arbitration
 - And up to date information on current or proposed financial regulation

- Contacts
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 - For legal issues legalhelpdesk@icmagroup.org
 - For regulatory questions regulatoryhelpdesk@icmagroup.org

ICMA Executive Education

- ICMA runs the ICMA Executive Education Programmes together with the ICMA Centre
- **ICMA Executive Education Courses are recognised by regulators and market participants**
- Courses can be delivered in a **classroom based, in-house and online format**
- **Tailored courses** are also available
- Approximately 980 delegates participated in our courses in 2017
- **Important discounts for ICMA members**
- List of courses: <http://www.icmagroup.org/Training-Development/>

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ICMA Social Networks

- **ICMA Womens Network (IWN)**
 - Contact: iwn@icmagroup.org

- **ICMA Future Leaders**
 - Contact: FutureLeaders@icmagroup.org

- **ICMA Mentoring Platform**
 - More information: <https://icma.onpld.com/register>

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